

MEMORANDUM FOR: Comptroller

SUBJECT : RAPID System Project

1. Paragraph 11 requests your approval to commit FY 1977 funds for the extension of the contract with [] to complete [] RAPID Project. These funds, in the amount of \$490 thousand, are not available in this Directorate's FY 1977 budget.

2. Procurement Division/OL [] signed a contract for the RAPID system [] on 27 June 1974. Only two companies bid in response to our Request for Proposal:

[] - delivery by 31 July 1975 @ \$975,000

[] - delivery by 30 September 1975 @ \$1,332,000

[] was selected on the basis of its low bid. It was paid \$290,000 in FY 1974 funds and \$53,000 in FY 1975 funds. An additional \$322,000 was obligated but not paid in FY 1975 and \$330,000 has been obligated but not paid in this fiscal year. The [] T/O was reduced by 47 positions in FY 1974 in anticipation of RAPID.

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3. [] failure to deliver the RAPID system led to a review in October [] Procurement Division, and OJCS representatives. This review, which involved on-site discussions []

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led to our conclusion that [] had the technical capability to complete the system, but would require a contract extension of from 12 to 18 months. Subsequent negotiations [] resulted in a December 1975 contract amendment extending the contract to 31 August 1976 and a payment for additional computer core and peripheral equipment bringing the total contract cost to \$995,000. The amendment provided for progress payments pegged to a comprehensive set of milestones. STATINTL

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4. Faced with continued failure to meet milestones, the company president in early December replaced its RAPID project manager. At this point [] management suspended all work and undertook its own review of the project, including a visit by the project team to [] Headquarters. It determined that on the basis of software yet to be completed the project could not be finished until August 1977. Following a meeting in Washington between representatives [] and Procurement Division and a four-man [] group including the company's three vice presidents, [] on 13 February formally requested that the RAPID contract be further amended to extend the completion date to 31 August 1977. It also presented a claim for \$490,438 in additional funds to compensate for "specification changes in scope and/or additional impact caused by the Government." [] has gone over this claim and concludes that most, but not necessarily all, of the elements of this claim are without merit. In any case the claim will be reviewed by the Office of Logistics and possibly by the Office of General Counsel. STATSPEC

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5. Meanwhile, [] staffers have canvassed the publishing automation industry, talked to a commercial consultant, and identified several companies which have completed systems basically similar to RAPID.

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All had been asked to bid on the original RAPID contract, but declined to do so. The [] project staff has determined that another vendor could build the RAPID system, at an estimated cost upwards of \$2 million.

6. The options are clear:

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I. Extend the [] contract to 31 August 1977.

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II. Cancel the [] contract by default or at the convenience of the Government and go to another vendor.

III. Defer or drop the RAPID project.

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7. Option I, staying with [] should give us a RAPID system by the end of FY 1977 at a total cost of up to \$1,567,500,

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depending on the amount of the [] \$490,000 claim that may be upheld. This total includes \$82,500 (already budgeted for necessary enhancement to the RAPID system during the Transitional Quarter). Any payment on the claim, which we will try to defer to FY 1977, is unfunded. Thus, under this option we may become liable for as much as \$490 thousand in unbudgeted funds in FY 1977.

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8. Option II, canceling the [] contract and going to another vendor, will have different cost consequences depending whether cancellation is by company default or at the convenience of the Government. Another vendor may give us a better system, but may also insist on a cost plus fixed fee contract.

a. Cancellation by default theoretically offers the prospect of delivery of the RAPID system by another vendor at the cost of \$995,000 to us and \$1 to \$2 million to [] Default STATINTL assumes that the entire blame for contract slippage falls on [] so the company's claim will have no basis. Put another way, if there is any merit to the claim we cannot force the company to default. Default action will undoubtedly involve litigation and if we are assigned any responsibility whatsoever for the slippage the court will not rule in our favor. We are told that the odds are against us. Time, money, and goodwill are all involved. As far as we know, the Agency has never gone this route. A further possibility would be [] decision to declare Title XIII bankruptcy.

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b. Cancellation at the convenience of the Government will require our expenditure of all funds paid and obligated for the [] contract, such funds as are awarded under [] STATINTL claim, and an estimated \$2 million to another vendor. This will total up to \$3,210,000. [] will be obliged to attempt to

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sell completed hardware and other portions of the RAPID system and transfer the receipts to the U.S. Treasury, not to CIA. Such receipts could total \$700,000.

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9. Option III, to defer or drop the RAPID project, will require a continuation of manual operations and require 23 positions to be added to [] T/O on a permanent basis even assuming we continue to contract [] typing as currently with Kelly Girls. If we decide to follow this course, our financial obligation [] could still be as much as \$1,210,000. Deferral or dropping RAPID will deprive us of an automated system which will streamline [] operations, interface with SAFE, and permit the Printing and Photography Division to print [] using an automated phototypesetter with considerable savings in expenditures for paper. STATINTL
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10. It should be noted that the delay in the implementation of the RAPID System will require continuation of the manual system for some time regardless of the option chosen. This will require 23 persons over the present ceiling. In Option I they will be required at least until 31 August 1977 and in Option III permanently. Personal Services for these people will amount to some \$80 thousand in the TQ and \$330 thousand in FY 1977, all ^{UK} budgeted. Hopefully, we can absorb part of this (as we are doing in FY 1976) but we have no assurance at this time that we will be able to do so in FY 1977. Thus, I feel you should be alerted now that we may require FY 1977 assistance in addition to the funds requested in Paragraph 11.

11. I see no alternative to proceeding with Option I but before I approve, I would like a commitment from you that FY 1977 funds up to \$490 thousand will be made available to this Directorate for this purpose.

EDWARD W. PROCTOR
Deputy Director for Intelligence

APPROVED:

Comptroller

Date

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DDI/MS: [] (2 Mar 76)

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